

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations as a result of our examination are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. Management offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

FINANCE DEPARTMENT - PRIMARY GOVERNMENT AND SCHOOL DEPARTMENT

FINDING 03.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

(Material Noncompliance Under Government Auditing Standards)

Cumberland County and the Cumberland County School Department did not identify and determine the historical value of their capital assets and infrastructure, and the related depreciation amounts of these assets. Therefore, the county and the School Department were unable to provide the information necessary to prepare government-wide financial statements for all of their activities, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB is the standard-setting body for accounting principles that state and local governments are required to follow. As a result of this omission, Cumberland County’s and the Cumberland County School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on the county’s and the School Department’s financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires counties that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34, standards established by the Comptroller of the Treasury. Cumberland County’s and the Cumberland County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

Cumberland County and the Cumberland County School Department should present government-wide financial statements in conformity with generally accepted accounting principles, and should compile and maintain records that properly account for its capital assets. These records should document the historical cost of the county’s and the School Department’s capital assets, and the related depreciation amounts of these assets. This information is necessary to present the county’s and the School Department’s financial statements in accordance with generally accepted accounting principles.

FINDING 03.02 DEFICIENCIES WERE NOTED IN TRAVEL DISBURSEMENTS
(Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following deficiencies in the payment of officials' and employees' travel expenses for the county and the School Department:

- A. The County Commission had not adopted a formal travel policy for county officials and employees and the School Board had not adopted a formal travel policy for school employees.

- B. Travel payments to officials and employees were not made uniformly. Some individuals were reimbursed for actual expense for meals, while others were paid a per diem rate.

RECOMMENDATION

The County Commission and School Board should adopt formal travel policies, which should provide uniform reimbursement rates for all officials and employees.

FINANCE DEPARTMENT – PRIMARY GOVERNMENT

FINDING 03.03 LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS WERE NOT DETERMINED AND RECORDED ON ACCOUNTING RECORDS OF THE SOLID WASTE DISPOSAL FUND
(Material Noncompliance Under Government Auditing Standards)

County officials did not determine and record landfill closure and postclosure care costs of \$1,121,515 on the accounting records of the Solid Waste Disposal Fund. We established this amount from information obtained from records on file and discussions with county officials and the county's landfill engineer. State and federal laws and regulations require the county to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although these closure and postclosure care costs will be paid near or after the date that the landfill stops accepting waste, generally accepted accounting principles require county officials to accrue and report a portion of these closure and postclosure care costs as a liability and as an operating expense in each year of operation based on the estimated landfill capacity used.

RECOMMENDATION

County officials should determine and record landfill closure and postclosure care costs on the accounting records of the Solid Waste Disposal Fund, in accordance with generally accepted accounting principles.

OFFICE OF COUNTY CLERK

FINDING 03.04 **THE COUNTY CLERK DID NOT REQUIRE A DEPOSITORY TO ADEQUATELY COLLATERALIZE FUNDS THAT EXCEEDED FDIC COVERAGE**
(Noncompliance Under Government Auditing Standards)

The county clerk did not require a depository holding county funds to pledge adequate securities to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2003, deposits exceeded FDIC coverage and collateral securities pledged by \$66,948. Section 5-8-201, Tennessee Code Annotated, provides for county officials to require any bank that is a depository of county funds to deposit in an escrow account in a second bank collateral security equal to 105 percent of such county funds.

RECOMMENDATION

The county clerk should require the office's depository to pledge adequate securities to protect county funds exceeding FDIC coverage, as required by state statute.

OFFICE OF REGISTER

FINDING 03.05 **BANK STATEMENTS WERE NOT RECONCILED WITH THE CASH JOURNAL**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Bank statements were not reconciled with the cash journal. The reconciliation of bank statements with cash journal accounts is necessary to ensure that all collections and disbursements are recorded properly on the accounting records.

RECOMMENDATION

Bank statements should be reconciled with the cash journal monthly.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.06 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE FINANCE DEPARTMENT AND THE OFFICES OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK, REGISTER, AND SHERIFF**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Finance Department and in the Offices of Circuit and General Sessions Courts Clerk, Register, and Sheriff. Officials and employees responsible for maintaining accounting records were also involved in receipting, depositing, and/or disbursing funds. We realize that due to limited resources and personnel, management may not be able to properly segregate duties among employees. However, our professional standards require that we bring this matter to the reader's attention in this report.